

ANNUAL INTEREST EXPENSE CALCULATION FOR CVP AND WASHOE POWER INVESTMENT

Investment that is recorded in the agencies' financial statements as plant-in-service and has not been fully repaid incurs an annual interest expense. The interest expense for unpaid original project investment is calculated at the interest rate in the authorizing legislation. The interest expense for unpaid replacements and additions to the project is calculated using the interest rate in effect the year construction was initiated.

Annual interest expense is also calculated on unpaid deferred expenses (deficits). Deficits occur when there is not enough revenue to pay annual expenses. The interest expense for unpaid deficits is calculated using the interest rate in effect the year the deficit occurred.

The annual interest expense is calculated by Western using the power repayment study (PRS). The PRS is an Excel based program that tracks the repayment of costs allocated to power. In general terms, the power repayment study calculates the annual interest expense for each investment/deficit by applying the interest rate for each investment to that investment's previous year's unpaid balance. The interest expense for all investments and deficits is summed to determine the annual interest expense for the project power investment. This total annual interest expense is then allocated between Western and Reclamation based on a ratio of each agency's power investment to the total power investment for both agencies.